

LOS RIOS COMMUNITY COLLEGE DISTRICT

Audit Report

HEALTH FEE ELIMINATION PROGRAM

Chapter 1, Statutes of 1984, 2nd E.S.,
and Chapter 1118, Statutes of 1987

July 1, 1997, through June 30, 2002



STEVE WESTLY
California State Controller

June 2004



STEVE WESTLY
California State Controller

June 24, 2004

Brice W. Harris, Chancellor
Los Rios Community College District
1919 Spanos Court
Sacramento, CA 95825

Dear Mr. Harris:

The State Controller's Office (SCO) has completed an audit of the claims filed by Los Rios Community College District for costs of the legislatively mandated Health Fee Elimination Program (Chapter 1, Statutes of 1984, 2nd E.S., and Chapter 1118, Statutes of 1987) for the period of July 1, 1997, through June 30, 2002.

The district claimed \$3,205,600 (\$3,206,600 in costs less a \$1,000 penalty for filing late) for the mandated program. Our audit disclosed that none of the claimed costs is allowable. Claimed costs are unallowable primarily because the district did not reduce allowable program costs by the amount of health services fees authorized by *Education Code* Section 76355. The district was paid \$2,224,368. The total amount paid should be returned to the State.

The SCO has established an informal audit review process to resolve a dispute of facts. The auditee should submit, in writing, a request for a review and all information pertinent to the disputed issues within 60 days after receiving the final report. The request and supporting documentation should be submitted to Richard J. Chivaro, Chief Counsel, State Controller's Office, Post Office Box 942850, Sacramento, CA 94250-0001. In addition, please provide a copy of the request letter to Jim L. Spano, Chief, Compliance Audits Bureau, State Controller's Office, Division of Audits, Post Office Box 942850, Sacramento, California 94250-5874.

If you have any questions, please contact Mr. Spano at (916) 323-5849.

Sincerely,

Original Signed By:

VINCENT P. BROWN
Chief Operating Officer

VPB:ams

cc: Jon Sharpe, Vice Chancellor
Finance and Administration
Los Rios Community College District
Carrie Bray
Director of Accounting Services
Los Rios Community College District
Ed Monroe, Program Assistant
Fiscal Accountability Section
Chancellor's Office
California Community Colleges
Jeannie Oropeza, Program Budget Manager
Education Systems Unit
Department of Finance
Charles Pillsbury
School Apportionment Specialist
Department of Finance

Contents

Audit Report

Summary	1
Background	1
Objective, Scope, and Methodology	2
Conclusion	2
Views of Responsible Official	3
Restricted Use	3
Schedule 1—Summary of Program Costs	4
Findings and Recommendations	6
Attachment—District’s Response to Draft Audit Report	

Audit Report

Summary

The State Controller's Office (SCO) has completed an audit of the claims filed by Los Rios Community College District for costs of the legislatively mandated Health Fee Elimination Program (Chapter 1, Statutes of 1984, 2nd Extraordinary Session (E.S.), and Chapter 1118, Statutes of 1987) for the period of July 1, 1997, through June 30, 2002. The last day of fieldwork was March 11, 2004.

The district claimed \$3,205,600 (\$3,206,600 in costs less a \$1,000 penalty for filing late) for the mandated program. The audit disclosed that none of the claimed costs is allowable. Claimed costs are unallowable primarily because the district did not reduce allowable program costs by the amount of health services fees authorized by *Education Code* Section 76355. The district was paid \$2,224,368. The total amount paid should be returned to the State.

Background

Chapter 1, Statutes of 1984, 2nd E.S., repealed *Education Code* Section 72246, which authorized community college districts to charge a health fee for providing health supervision and services, direct and indirect medical and hospitalization services, and operation of student health centers. This statute also required that health services for which a community college district charged a fee during fiscal year (FY) 1983-84 had to be maintained at that level in FY 1984-85 and every year thereafter. The provisions of this statute would automatically sunset on December 31, 1987, reinstating community colleges districts' authority to charge a health fee as specified. Chapter 1118, Statutes of 1987, amended *Education Code* Section 72246 to require any community college district that provided health services in FY 1986-87 to maintain health services at the level provided during that year in FY 1987-88 and each fiscal year thereafter.

On November 20, 1986, the Commission on State Mandates (COSM) determined that Chapter 1, Statutes of 1984, 2nd E.S., imposed a "new program" upon community college districts by requiring any community college district that provided health services for which it was authorized to charge a fee pursuant to former *Education Code* Section 72246 in FY 1983-84 to maintain health services at the level provided during that year in FY 1984-85 and each fiscal year thereafter. This maintenance-of-effort requirement applies to all community college districts that levied a health services fee in FY 1983-84, regardless of the extent to which the health services fees collected offset the actual costs of providing health services at the FY 1983-84 level. On April 27, 1989, COSM determined that Chapter 1118, Statutes of 1987, amended this maintenance-of-effort requirement to apply to all community college districts that provided health services in FY 1986-87 and required them to maintain that level in FY 1987-88 and each fiscal year thereafter.

Parameters and Guidelines, adopted by COSM on August 27, 1987 (and amended on May 25, 1989), establishes the state mandate and defines criteria for reimbursement. In compliance with *Government Code* Section 17558, the SCO issues claiming instructions for each mandate requiring state reimbursement to assist school districts and local agencies in claiming reimbursable costs.

Objective, Scope, and Methodology

The audit objective was to determine whether costs claimed are increased costs incurred as a result of the legislatively mandated Health Fee Elimination Program (Chapter 1, Statutes of 1984, 2nd E.S., and Chapter 1118, Statutes of 1987) for the period of July 1, 1997, through June 30, 2002.

The auditors performed the following procedures:

- Reviewed the costs claimed to determine if they were increased costs resulting from the mandated program;
- Traced the costs claimed to the supporting documentation to determine whether the costs were properly supported;
- Confirmed that the costs claimed were not funded by another source; and
- Reviewed the costs claimed to determine that the costs were not unreasonable and/or excessive.

The SCO conducted the audit in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States, and under the authority provided by *Government Code* Section 17558.5. The SCO did not audit the district's financial statements. The scope was limited to planning and performing audit procedures necessary to obtain reasonable assurance concerning the allowability of expenditures claimed for reimbursement. Accordingly, transactions were examined, on a test basis, to determine whether the amounts claimed for reimbursement were supported.

Review of the district's internal controls was limited to gaining an understanding of the transaction flow and claim preparation process as necessary to develop appropriate auditing procedures.

Conclusion

The audit disclosed instances of noncompliance with the requirements outlined above. These instances are described in the accompanying Summary of Program Costs (Schedule 1) and in the Findings and Recommendations section of this report.

For the audit period, Los Rios Community College District claimed \$3,205,600 (\$3,206,600 in costs less a \$1,000 penalty for filing late) for costs of the legislatively mandated Health Fee Elimination Program. The district was paid \$2,224,368 by the State for the audit period: \$606,532 (\$607,532 in costs less a \$1,000 penalty for filing late) for FY 1997-98; \$625,570 for FY 1998-99; \$634,185 for FY 1999-2000; \$187,592 for FY 2000-01; and \$170,489 for FY 2001-02.

The audit disclosed that none of the costs claimed is allowable. The amount paid in excess of allowable costs claimed, totaling \$2,224,368, should be returned to the State.

**Views of
Responsible
Official**

The SCO issued a draft audit report on May 5, 2004. Jon Sharpe, Vice Chancellor, Finance and Administration, responded by letter dated May 24, 2004, disagreeing with the audit results. The district's response is included in this final audit report.

Restricted Use

This report is solely for the information and use of Los Rios Community College District, the California Department of Education, the California Department of Finance, and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

Original Signed By:

JEFFREY V. BROWNFIELD
Chief, Division of Audits

Schedule 1— Summary of Program Costs July 1, 1999, through June 30, 2002

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustments	Reference ¹
<u>July 1, 1997, through June 30, 1998</u>				
Salaries	\$ 381,878	\$ 357,643	\$ (24,235)	Finding 1
Benefits	64,953	64,953	—	
Services and supplies	16,332	9,118	(7,214)	Finding 2
Subtotals	463,163	431,714	(31,449)	
Indirect costs	144,369	64,757	(79,612)	Findings 1, 2, 3
Subtotals, health expenditures	607,532	496,471	(111,061)	
Less costs subject to fee authority	—	(953,090)	(953,090)	Finding 4
Less late penalty	(1,000)	(1,000)	—	
Subtotals	606,532	(457,619)	(1,064,151)	
Adjustment to eliminate negative balance	—	457,619	457,619	
Total costs	<u>\$ 606,532</u>	—	<u>\$ (606,532)</u>	
Less amount paid by the State		(606,532)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (606,532)</u>		
<u>July 1, 1998, through June 30, 1999</u>				
Salaries	\$ 410,013	\$ 372,391	\$ (37,622)	Finding 1
Benefits	58,822	58,822	—	
Services and supplies	10,897	7,104	(3,793)	Finding 2
Subtotals	479,732	438,317	(41,415)	
Indirect costs	145,838	64,520	(81,318)	Findings 1, 2, 3
Subtotals, health expenditures	625,570	502,837	(122,733)	
Less costs subject to fee authority	—	(1,057,996)	(1,057,996)	Finding 4
Subtotals	625,570	(555,159)	(1,180,729)	
Adjustment to eliminate negative balance	—	555,159	555,159	
Total costs	<u>\$ 625,570</u>	—	<u>\$ (625,570)</u>	
Less amount paid by the State		(625,570)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (625,570)</u>		
<u>July 1, 1999, through June 30, 2000</u>				
Salaries	\$ 406,642	\$ 370,787	\$ (35,855)	Finding 1
Benefits	60,153	60,153	—	
Services and supplies	19,543	12,852	(6,691)	Finding 2
Subtotals	486,338	443,792	(42,546)	
Indirect costs	147,847	69,276	(78,571)	Findings 1, 2, 3
Subtotals, health expenditures	634,185	513,068	(121,117)	
Less costs subject to fee authority	—	(1,151,391)	(1,151,391)	Finding 4
Subtotals	634,185	(638,323)	(1,272,508)	
Adjustment to eliminate negative balance	—	638,323	638,323	
Total costs	<u>\$ 634,185</u>	—	<u>\$ (634,185)</u>	
Less amount paid by the State		(634,185)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (634,185)</u>		

Schedule 1 (continued)

<u>Cost Elements</u>	<u>Actual Costs Claimed</u>	<u>Allowable per Audit</u>	<u>Audit Adjustments</u>	<u>Reference ¹</u>
<u>July 1, 2000, through June 30, 2001</u>				
Salaries	\$ 425,343	\$ 404,551	\$ (20,792)	Finding 1
Benefits	70,350	70,350	—	
Services and supplies	<u>11,980</u>	<u>5,621</u>	<u>(6,359)</u>	Finding 2
Subtotals	507,673	480,522	(27,151)	
Indirect costs	<u>159,664</u>	<u>71,742</u>	<u>(87,922)</u>	Findings 1, 2, 3
Subtotals, health expenditures	667,337	552,264	(115,073)	
Less costs subject to fee authority	<u>—</u>	<u>(1,368,418)</u>	<u>(1,368,418)</u>	Finding 4
Subtotals	667,337	(816,154)	(1,483,491)	
Adjustment to eliminate negative balance	<u>—</u>	<u>816,154</u>	<u>816,154</u>	
Total costs	<u>\$ 667,337</u>	<u>—</u>	<u>\$ (667,337)</u>	
Less amount paid by the State		<u>(187,592)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (187,592)</u>		
<u>July 1, 2001, through June 30, 2002</u>				
Salaries	\$ 433,372	\$ 423,283	\$ (10,089)	Finding 1
Benefits	70,979	70,979	—	
Services and supplies	<u>9,706</u>	<u>4,981</u>	<u>(4,725)</u>	Finding 2
Subtotals	514,057	499,243	(14,814)	
Indirect costs	<u>157,919</u>	<u>75,237</u>	<u>(82,682)</u>	Findings 1, 2, 3
Subtotals, health expenditures	671,976	574,480	(97,496)	
Less costs subject to fee authority	<u>—</u>	<u>(1,571,052)</u>	<u>(1,571,052)</u>	Finding 4
Subtotals	671,976	(996,572)	(1,668,548)	
Adjustment to eliminate negative balance	<u>—</u>	<u>996,572</u>	<u>996,572</u>	
Total costs	<u>\$ 671,976</u>	<u>—</u>	<u>\$ (671,976)</u>	
Less amount paid by the State		<u>(170,489)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (170,489)</u>		
<u>Summary: July 1, 1997, through June 30, 2002</u>				
Salaries	\$ 2,057,248	\$ 1,928,655	\$ (128,593)	Finding 1
Benefits	325,257	325,257	—	
Services and supplies	<u>68,458</u>	<u>39,676</u>	<u>(28,782)</u>	Finding 2
Subtotals	2,450,963	2,293,588	(157,375)	
Indirect costs	<u>755,637</u>	<u>345,532</u>	<u>(410,105)</u>	Findings 1, 2, 3
Subtotals, health expenditures	3,206,600	2,639,120	(567,480)	
Less costs subject to fee authority	<u>—</u>	<u>(6,101,947)</u>	<u>(6,101,947)</u>	Finding 4
Less late penalty	<u>(1,000)</u>	<u>(1,000)</u>	<u>—</u>	
Subtotals	3,205,600	(3,463,827)	(6,669,427)	
Adjustment to eliminate negative balance	<u>—</u>	<u>3,463,827</u>	<u>3,463,827</u>	
Total costs	<u>\$ 3,205,600</u>	<u>—</u>	<u>\$ (3,205,600)</u>	
Less amount paid by the State		<u>(2,224,368)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (2,224,368)</u>		

¹ See the Findings and Recommendations section.

Findings and Recommendations

FINDING 1— Unallowable salaries and fringe benefits

The district claimed unallowable salaries totaling \$128,593 for the audit period. The related indirect cost is \$39,529, based on the indirect cost rates claimed during the audit period. The unallowable salary costs are attributable to the increased level of health services provided by American River College during each fiscal year.

The district's claims for the audit period identified those health services that were provided in the base year for this program (FY 1986-87). The SCO auditor reviewed logs maintained by each college within the district that identified actual health services provided during the audit period. Logs for American River College showed that the college provided health services exceeding those services provided by the district during the base year.

The auditor sampled six months of logs maintained by American River College for each fiscal year during the period of FY 1998-99 through FY 2001-02. The logs showed that only 78.52% of the services provided in FY 1998-99 were allowable. Similarly, the logs showed that 78.01%, 87.77%, and 92.72% of services provided in FY 1999-2000, FY 2000-01, and FY 2001-02, respectively, were allowable. The district was unable to provide logs for American River College for FY 1997-98. Therefore, the auditor calculated an average allowable percentage of 84.26% based on the percentages for the four succeeding fiscal years. The SCO applied these percentages to salary costs claimed for American River College to determine total allowable salary costs for each fiscal year. The audit adjustment is summarized as follows:

	Fiscal Year					Total
	1997-98	1998-99	1999-2000	2000-01	2001-02	
Salaries	\$ (24,235)	\$ (37,622)	\$ (35,855)	\$ (20,792)	\$ (10,089)	
Indirect cost rate	<u>×31.17%</u>	<u>×30.40%</u>	<u>×30.40%</u>	<u>×31.45%</u>	<u>×30.72%</u>	
Related indirect costs	\$ (7,554)	\$ (11,437)	\$ (10,900)	\$ (6,539)	\$ (3,099)	\$ (39,529)
Salaries (from above)	<u>(24,235)</u>	<u>(37,622)</u>	<u>(35,855)</u>	<u>(20,792)</u>	<u>(10,089)</u>	<u>(128,593)</u>
Audit adjustment	<u>\$ (31,789)</u>	<u>\$ (49,059)</u>	<u>\$ (46,755)</u>	<u>\$ (27,331)</u>	<u>\$ (13,188)</u>	<u>\$ (168,122)</u>

Parameters and Guidelines states that community college districts that provided health services in FY 1986-87 and continue to provide the same services as a result of this mandate are eligible to claim reimbursement of those costs. Only services provided in FY 1986-87 may be claimed.

In addition, *Parameters and Guidelines* states that all costs claimed must be traceable to source documentation that shows evidence of the validity of such costs. Documentation must be kept on file for a period of no less than three years from the date of the final payment of the claim.

Recommendation

The district should maintain logs for all colleges that show health services actually provided as required by *Parameters and Guidelines*. The district should also ensure that it claims only those costs attributable to health services that were provided in the FY 1986-87 base year.

District's Response

The finding is based, partially, upon the report's assertion that the "*Parameters and Guidelines* states that all costs claimed must be traceable to source documentation that shows evidence of the validity of such costs." The *Parameters and Guidelines* actually state, in that regard, that ". . . all costs claimed must be traceable to source documents and/or worksheets that show evidence of the validity of such costs."

It would therefore appear that this finding is based upon the wrong standard for review.

SCO's Comment

The finding and recommendation remain unchanged. The term "source documentation" includes worksheets and other evidence; therefore, the criterion is valid. The district did not address the audit finding's factual accuracy and did not provide any additional source documents or worksheets to refute the finding.

FINDING 2— Unallowable services and supplies

The district claimed unallowable services and supplies totaling \$28,782 for the audit period. The related indirect cost is \$8,887, based on the indirect cost rates claimed during the audit period. The unallowable services and supplies costs are attributable to services not reimbursable under the mandate program, services not provided in the FY 1986-87 base year, and costs not supported by source documentation.

The district claimed \$26,100 during the audit period for physical exams for intercollegiate athletics and for salaries of health professionals present at athletic events. These costs are not reimbursable under the mandated program. The district also claimed \$2,125 during the audit period for the cost of Hepatitis B vaccinations. The district's claims did not identify Hepatitis B vaccinations as a service provided in the FY 1986-87 base year. In addition, \$557 claimed during the audit period was not supported by the district's source documentation.

The audit adjustment is summarized as follows:

	Fiscal Year					Total
	1997-98	1998-99	1999-2000	2000-01	2001-02	
Athletics-related costs	\$ (6,216)	\$ (3,178)	\$ (5,898)	\$ (6,083)	\$ (4,725)	\$ (26,100)
Hepatitis B vaccinations	(811)	(521)	(793)	—	—	(2,125)
Unsupported costs	(187)	(94)	—	(276)	—	(557)
Total costs	(7,214)	(3,793)	(6,691)	(6,359)	(4,725)	<u>\$ (28,782)</u>
Indirect cost rate	<u>×31.17%</u>	<u>×30.40%</u>	<u>×30.40%</u>	<u>×31.45%</u>	<u>×30.72%</u>	
Related indirect costs	(2,249)	(1,153)	(2,034)	(2,000)	(1,451)	\$ (8,887)
Total costs (from above)	<u>(7,214)</u>	<u>(3,793)</u>	<u>(6,691)</u>	<u>(6,359)</u>	<u>(4,725)</u>	<u>(28,782)</u>
Audit adjustment	<u>\$ (9,463)</u>	<u>\$ (4,946)</u>	<u>\$ (8,725)</u>	<u>\$ (8,359)</u>	<u>\$ (6,176)</u>	<u>\$ (37,669)</u>

Education Code Section 76355(d) states that authorized expenditures shall not include physical exams for intercollegiate athletics and the salaries of health professionals for athletic events.

Parameters and Guidelines states that community college districts that provided health services in FY 1986-87 and continue to provide the same services as a result of this mandate are eligible to claim reimbursement of those costs. Only services provided in FY 1986-87 may be claimed. *Parameters and Guidelines* also states that all costs claimed must be traceable to source documentation that shows evidence of the validity of such costs.

Recommendation

The district should ensure that it claims costs only for the health services reimbursable under the mandate program. In addition, the district should ensure that all costs claimed are supported by source documentation.

District's Response

This finding disallows costs . . . based upon the conclusion that “[T]hese costs are not reimbursable under the mandate program.” This is not a correct interpretation of the law. *Education Code* Section 76355, subdivision (a), permits the collection of student fees for health services. Subdivision (d) requires that these fees, if collected, be deposited in a designated fund and be expended only as authorized. Subdivision (d) prohibits expenditures *from the fund* for physical examinations for intercollegiate athletics or the salaries of health professionals for athletic events. The prohibition only applies to expenditures of funds from the special account designated in which student fees are deposited.

SCO's Comment

The finding and recommendation remain unchanged. The district did not address unallowable costs for Hepatitis B vaccinations and unsupported costs. Regarding athletic-related costs, *Education Code* Section 76355(e) states, “Any community college district that provided health services in the 1986-87 fiscal year shall maintain health services, at the level

provided during the 1986-87 fiscal year, and each fiscal year thereafter. If the cost to maintain that level of service exceeds the limits specified in subdivision (a), the excess cost shall be borne by the district.” *Education Code* Section 76355(a) defines the authorized health services fees. Thus, the mandate program “maintenance of effort” requirement applies to those health services for which the district may levy a fee. *Education Code* Section 76355(d) states that athletic-related costs are not authorized expenditures of health services fees. Because the mandate does not require a “maintenance of effort” for athletic-related services, these costs are not mandated costs as defined by *Government Code* Section 17514.

FINDING 3— Overstated indirect cost rates claimed

The district overstated its indirect cost rates, and thus overstated indirect costs by \$361,689 for the audit period.

The district claimed indirect costs based on indirect cost rate proposals (ICRP) prepared for each fiscal year. However, the district did not obtain federal approval for its ICRPs. The SCO auditor calculated indirect cost rates using the methodology allowed by the SCO claiming instructions. The calculated indirect cost rates did not support the indirect cost rates claimed. The claimed and audited indirect cost rates are summarized below.

	Fiscal Year				
	1997-98	1998-99	1999-2000	2000-01	2001-02
Allowable indirect cost rate	15.00%	14.72%	15.61%	14.93%	15.07%
Less claimed indirect cost rate	<u>(31.17)%</u>	<u>(30.40)%</u>	<u>(30.40)%</u>	<u>(31.45)%</u>	<u>(30.72)%</u>
Unsupported indirect cost rate	<u>(16.17)%</u>	<u>(15.68)%</u>	<u>(14.79)%</u>	<u>(16.52)%</u>	<u>(15.65)%</u>

Based on these unsupported indirect cost rates, the audit adjustments are summarized below:

	Fiscal Year					Total
	1997-98	1998-99	1999-2000	2000-01	2001-02	
Allowable costs claimed	\$ 431,714	\$ 438,317	\$ 443,792	\$ 480,522	\$ 499,243	
Unsupported indirect cost rate	<u>× (16.17)%</u>	<u>× (15.68)%</u>	<u>× (14.79)%</u>	<u>× (16.52)%</u>	<u>× (15.65)%</u>	
Audit adjustment	<u>\$ (69,809)</u>	<u>\$ (68,728)</u>	<u>\$ (65,637)</u>	<u>\$ (79,383)</u>	<u>\$ (78,132)</u>	<u>\$ (361,689)</u>

Parameters and Guidelines states that indirect costs may be claimed in the manner described in the SCO claiming instructions. The SCO claiming instructions state that community college districts using an ICRP prepared in accordance with Office of Management and Budget (OMB) Circular A-21 must obtain federal approval of the ICRP. Alternately, the SCO claiming instructions allow community college districts to compute an indirect cost rate using Form FAM-29C, which is based on total expenditures as reported in *California Community Colleges Annual Financial and Budget Report, Expenditures by Activity (CCFS-311)*.

Recommendation

The district should claim indirect costs based on indirect cost rates computed in accordance with the SCO claiming instructions. The district should obtain federal approval for ICRPs prepared in accordance with OMB Circular A-21. Alternately, the district should use Form FAM-29C to prepare ICRPs based on the methodology allowed in the SCO claiming instructions.

District's Response

The Parameters and Guidelines for Health Fee Elimination (as last amended on 5/25/89) state that "Indirect costs *may be claimed* in the manner described by the State Controller in his claiming instructions." It does not require that indirect costs be claimed in the manner described by the State Controller.

The State Controller's Claiming Instructions, at the Instructions for Form HFE-1.1, line (05), states, in relevant part: "For claiming indirect costs, college districts have the option of using a federally approved rate from the Office of Management and Budget Circular A-21, from FAM-29C, or a 7% indirect cost rate." The burden should be on the State Controller to show that the ICRP used by the district would not be approved by the federal government, since the State Controller is required to pay claims and may only reduce a claim upon a determination that the claim is excessive or unreasonable. Government Code Section 17651(d)(2)

SCO's Comment

The finding and recommendation remain unchanged. The phrase "may be claimed" allows the district to claim indirect costs. If the district claims indirect costs, the costs must adhere to the SCO's claiming instructions.

Government Code Section 12410 states that the Controller shall audit all claims against the state for correctness, legality, and for sufficient provisions of law for payment. The Health Fee Elimination Program *Parameters and Guidelines* references the SCO's claiming instructions, which require federal approval for OMB Circular A-21 indirect cost rates. The district did not obtain federal approval; thus, the indirect cost rates are unallowable.

**FINDING 4—
Understated
authorized health fee
revenues claimed**

The district did not offset health services program costs by the amount of authorized health fee revenues. Authorized health fee revenues totaled \$6,101,947 for the audit period.

The district's Institutional Research Office (IRO) provided student enrollment data for each fiscal year within the audit period. The IRO also provided data on students enrolled in apprenticeship programs and students who received Board of Governors Grants (BOGG waivers). Based on the IRO data provided, understated authorized health fee revenues are calculated as follows:

	<u>Fall</u>	<u>Spring</u>	<u>Summer</u>	<u>Total</u>
<u>Fiscal Year 1997-98</u>				
Student enrollment	55,094	56,365	21,939	
Less allowable health fee exemptions	<u>(17,748)</u>	<u>(17,649)</u>	<u>(7,388)</u>	
Subtotals	37,346	38,716	14,551	
Authorized student health fee	<u>× \$(11)</u>	<u>× \$(11)</u>	<u>× \$(8)</u>	
Audit adjustment, FY 1997-98	<u><u>\$(410,806)</u></u>	<u><u>\$(425,876)</u></u>	<u><u>\$(116,408)</u></u>	<u><u>\$(953,090)</u></u>
<u>Fiscal Year 1998-99</u>				
Student enrollment	59,436	60,717	23,032	
Less allowable health fee exemptions	<u>(17,709)</u>	<u>(17,680)</u>	<u>(7,333)</u>	
Subtotals	41,727	43,037	15,699	
Authorized student health fee	<u>× \$(11)</u>	<u>× \$(11)</u>	<u>× \$(8)</u>	
Audit adjustment, FY 1998-99	<u><u>\$(458,997)</u></u>	<u><u>\$(473,407)</u></u>	<u><u>\$(125,592)</u></u>	<u><u>\$(1,057,996)</u></u>
<u>Fiscal Year 1999-2000</u>				
Student enrollment	63,752	64,388	24,934	
Less allowable health fee exemptions	<u>(18,274)</u>	<u>(18,037)</u>	<u>(7,275)</u>	
Subtotals	45,478	46,351	17,659	
Authorized student health fee	<u>× \$(11)</u>	<u>× \$(11)</u>	<u>× \$(8)</u>	
Audit adjustment, FY 1999-2000	<u><u>\$(500,258)</u></u>	<u><u>\$(509,861)</u></u>	<u><u>\$(141,272)</u></u>	<u><u>\$(1,151,391)</u></u>
<u>Fiscal Year 2000-01</u>				
Student enrollment	65,163	64,082	26,501	
Less allowable health fee exemptions	<u>(11,293)</u>	<u>(11,417)</u>	<u>(4,664)</u>	
Subtotals	53,870	52,665	21,837	
Authorized student health fee	<u>× \$(11)</u>	<u>× \$(11)</u>	<u>× \$(9)</u>	
Audit adjustment, FY 2000-01	<u><u>\$(592,570)</u></u>	<u><u>\$(579,315)</u></u>	<u><u>\$(196,533)</u></u>	<u><u>\$(1,368,418)</u></u>
<u>Fiscal Year 2001-02</u>				
Student enrollment	70,706	71,361	26,772	
Less allowable health fee exemptions	<u>(13,587)</u>	<u>(14,200)</u>	<u>(4,584)</u>	
Subtotals	57,119	57,161	22,188	
Authorized student health fee	<u>× \$(12)</u>	<u>× \$(12)</u>	<u>× \$(9)</u>	
Audit adjustment, FY 2001-02	<u><u>\$(685,428)</u></u>	<u><u>\$(685,932)</u></u>	<u><u>\$(199,692)</u></u>	<u><u>\$(1,571,052)</u></u>

Parameters and Guidelines states that health fees authorized by the *Education Code* must be deducted from costs claimed. *Education Code* Section 76355(c) states that health fees are authorized for all students except those students who: (1) depend exclusively on prayer for healing; (2) are attending a community college under an approved apprenticeship training program; or (3) demonstrate financial need. (Pursuant to *Education Code* Section 76355(a), authorized health fees increased by \$1.00 effective with the Summer 2001 session.)

Also, *Government Code* Section 17514 states that costs mandated by the State means any increased costs which a school district is required to incur. To the extent community college districts can charge a fee, they are not required to incur a cost. In addition, *Government Code* Section 17556 states that COSM shall not find costs mandated by the State if the school district has the authority to levy fees to pay for the mandated program or increased level of service.

Recommendation

The district should offset allowable health services program costs by the amount of health service fee revenues authorized by the *Education Code*. The district should maintain records to support the amount calculated for authorized health service fee revenues, including actual student enrollment and students who are exempted from health fees pursuant to *Education Code* Section 76355(c).

District's Response

Education Code Section 76355, subdivision (a), in relevant part, provides: "The governing board of a district maintaining a community college may require community college students to pay a fee...for health supervision and services...." There is no requirement that community colleges levy these fees. The permissive nature of the provision is further illustrated in subdivision (b) which states "If, pursuant to this section, a fee is required, the governing board of the district shall decide the amount of the fee, if any, that a part-time student is required to pay. The governing board may decide whether the fee shall be mandatory or optional." (Emphasis supplied in both instances)

This finding is also based upon the report's statement that the "*Parameters and Guidelines* states that health fees authorized by the *Education Code* must be deducted from the costs claimed." This is a misstatement of the *Parameters and Guidelines*. The *Parameters and Guidelines*, as last amended on 5/25/89, state, in relevant part, "Any offsetting savings...must be deducted from the costs claimed... This shall include the amount of (student fees) as authorized by Education Code [Section 76355]." The use of the term "any offsetting savings" further illustrates the permissive nature of the fees. Student fees actually collected must be used to offset costs, but not student fees that could have been collected and were not.

Finally, the report cites *Government Code* Section 17556 which only prohibits the Commission on State Mandates from finding costs in certain instances. Here, the Commission has already made a finding of a

new program or increased costs.

SCO's Comment

The finding and recommendation remain unchanged. The SCO agrees that community college districts may choose not to levy a health services fee. However, *Education Code* Section 76355 provides the district the authority to levy a health services fee. Therefore, the related health services costs are not mandated costs as defined by *Government Code* Section 17514. Health services costs recoverable through an authorized fee are not costs the district is required to incur. *Government Code* Section 17556 states that the COSM shall not find costs mandated by the State as defined in *Government Code* Section 17514 if the district has authority to levy fees to pay for the mandated program or increased level of service.

Statute of limitations

The district's response included comments regarding the SCO's authority to audit costs claimed for FY 1997-98, FY 1998-99, and FY 1999-2000. The district's response and SCO's comment are as follows:

District's Response

The district's 1997-98 claim was filed on January 15, 2000. The district's 1998-1999 claim was filed on January 15, 2000. The district's 1999-2000 claim was filed on December 30, 2000. The draft audit report is dated May 2004. Therefore, these three claims were only subject to audit until December 31, 2002. Therefore, the proposed audit adjustments for these years are barred by the statute of limitations set forth in *Government Code* Section 17558.5.

SCO's Comment

The audit scope remains unchanged. *Government Code* Section 17558.5(a), effective July 1, 1996, states that a district's reimbursement claim is subject to audit no later than two years after the end of the calendar year in which the claim is filed or last amended. No statutory language defines when the SCO must issue an audit report. Furthermore, no statutory language requires an entrance conference or some other formal event to be held before the two-year period expires. SCO staff contacted the district to initiate the audit in December 2002, within the statute of limitations. The district requested that the audit start in January 2003, rather than December 2002. *Government Code* Section 17558.5(c), effective July 1, 1996, states, "Nothing in this section shall be construed to limit the adjustment of payments . . . when a delay in the completion of an audit is the result of willful acts by the claimant or inability to reach agreement on terms of final settlement."

**Attachment—
District's Response to
Draft Audit Report**

LOS RIOS COMMUNITY COLLEGE DISTRICT



SACRAMENTO CITY COLLEGE

AMERICAN RIVER COLLEGE

COSUMNES RIVER COLLEGE

CERTIFIED MAIL - RETURN RECEIPT REQUESTED

May 24, 2004

Mr. Jim L. Spano, Chief
Compliance Audits Bureau
California State Controller
Division of Audits
P.O. Box 942850
Sacramento, CA 94250-5874

Re: Health Fee Elimination Audit

Dear Mr. Spano:

This letter is the response of Los Rios Community College District to the letter of Vincent P. Brown dated May 5, 2004 which enclosed a Draft Copy of your Audit Report of the district's Health Fee Elimination program, Chapter 1, Statutes of 1984 and Chapter 1118, Statutes of 1987, for the period of July 1, 1997 through June 30, 2002.

Statute of Limitations

The district's 1997-1998 claim was filed on January 15, 2000. The district's 1998-1999 claim was filed on January 15, 2000. The districts 1999-2000 claim was filed on December 30, 2000. The draft audit report is dated May 2004. Therefore, these three claims were only subject to audit until December 31, 2002. Therefore, the proposed audit adjustments for these years are barred by the statute of limitations set forth in Government Code Section 17558.5.

Finding 1 - Unallowable Salaries and Fringe Benefits

This finding is based, partially, upon the report's assertion that the "*Parameters and Guidelines*" states that all costs claimed must be traceable to source documentation that shows evidence of the validity of such costs." The *Parameters and Guidelines* actually state, in that regard, that "...all costs claimed must be traceable to source documents and/or worksheets that show evidence of the validity of such costs."

It would therefore appear that this finding is based upon the wrong standard for review.

Jim L. Spano, Chief
Compliance Audits Bureau
May 24, 2004

Finding 2 - Unallowable services and Supplies

This finding disallows costs incurred for physical exams for intercollegiate athletics and for salaries of health professionals present at athletic events based upon the conclusion that "[T]hese costs are not reimbursable under the mandated program. This is not a correct interpretation of the law. Education Code Section 76355, subdivision (a), permits the collection of student fees for health services. Subdivision (d) requires that these fees, if collected, be deposited in a designated fund and be expended only as authorized. Subdivision (d) prohibits expenditures *from the fund* for physical examinations for intercollegiate athletics or the salaries of health professionals for athletic events. The prohibition only applies to expenditure of funds from the special account designated in which student fees are deposited.

Finding 3 - Overstated Indirect Cost Rates Claimed

This finding is based upon the report's statement that "[T]he district claimed indirect costs based on indirect cost rate proposals (IRCP) prepared for each fiscal year. However, the district did not obtain federal approval for its IRCPs."

The Parameters and Guidelines for Health Fee Elimination (as last amended on 5/25/89) state that "Indirect costs *may be claimed* in the manner described by the State Controller in his claiming instructions." It does not require that indirect costs be claimed in the manner described by the State Controller.

The State Controller's Claiming Instructions, at the Instructions for Form HFE-1.1, line (05), states, in relevant part: "For claiming indirect costs, college districts have the option of using a federally approved rate from the Office of Management and Budget Circular A-21, from FAM-29C, or a 7% indirect cost rate." The burden should be on the State Controller to show that the IRCP used by the district would not be approved by the federal government, since the State Controller is required to pay claims and may only reduce a claim upon a determination that the claim is excessive or unreasonable. Government Code Section 17651(d)(2)

Finding 4 - Understated Authorized Health Fee Revenues Claimed

This finding is based upon the report's statement that the district did not offset health services program costs by the amount of authorized health fee revenues.

Education Code Section 76355, subdivision (a), in relevant part, provides: "The governing board of a district maintaining a community college *may require* community college students to pay a fee...for health supervision and services..." There is no

Jim L. Spano, Chief
Compliance Audits Bureau
May 24, 2004

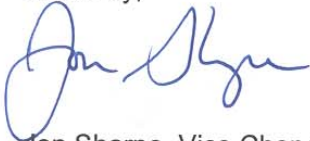
requirement that community colleges levy these fees. The permissive nature of the provision is further illustrated in subdivision (b) which states "if, pursuant to this section, a fee is required, the governing board of the district shall decide the amount of the fee, if any, that a part-time student is required to pay. The governing board may decide whether the fee shall be mandatory or optional." (Emphasis supplied in both instances)

This finding is also based upon the report's statement that the "*Parameters and Guidelines* states that health fees authorized by the *Education Code* must be deducted from the costs claimed." This is a misstatement of the Parameters and Guidelines. The Parameters and Guidelines, as last amended on 5/25/89, state, in relevant part, "Any offsetting savings...must be deducted from the costs claimed...This shall include the amount of (student fees) as authorized by Education Code Section 72246(a)¹." The use of the term "any offsetting savings" further illustrates the permissive nature of the fees. Student fees actually collected must be used to offset costs, but not student fees that could have been collected and were not.

Finally, the report cites Government Code Section 17556 which only prohibits the Commission on State Mandates from finding costs in certain instances. Here, the Commission has already made a finding of a new program or increased costs.

Therefore, for the reasons stated above, Los Rios Community College District requests that the audit report be changed to comply with the law and to defer any request for payment until the audit report is corrected.

Sincerely,



Jon Sharpe, Vice Chancellor
Finance and Administration
Los Rios Community College District

C: Brice Harris, Chancellor
Carrie Bray, Director of Accounting Services

¹ Former Education Code Section 72246 was repealed by Chapter 8, Statutes of 1993, Section 29, and was replaced by Education Code Section 76355.

**State Controller's Office
Division of Audits
Post Office Box 942850
Sacramento, California 94250-5874**

<http://www.sco.ca.gov>